Assembly
California Legislature
KEITH S. RICHMAN, M.D.
ASSEMBLYMEMBER, THIRTY-EIGHTH DISTRICT

Richman ACA Would Start Fiscally Responsible Pensions

FOR IMMEDIATE RELEASE
December 6, 2004

Contact: Daniel Pellissier
Patrick Sullivan
916-319-2038

SACRAMENTO -- In order to restore some fiscal responsibility to the pension costs that are ravaging government agency budgets throughout California, Assemblyman Keith Richman today introduced Assembly Constitutional Amendment 5 that will put new public employees in the same type of 401(k) pension system offered to most private sector employees.

"Every week we read more stories about state, local and school budgets being decimated by defined benefit pension costs. The City of San Diego, Orange and Contra Costa Counties all have pension deficits of more than $1 billion. CalPERS owes more than $1.9 billion than it has on hand and just last week state teacher pension fund officials said they may cut benefits for future retirees by $500 a month to eliminate their $23 billion deficit. ACA 5 will stop state government and local public agencies from making expensive promises they can't keep and will restore accountability to public pensions," Assemblyman Richman said.

During the last 20 years, most private sector companies have moved their retirement programs from defined benefit plans that provide retirement benefits based upon a formula of years employed and final salary to the 401(k)-type plans that match employee contributions to their own accounts. For employers, these defined contribution plans eliminate the volatility in contribution rates and prohibit passing along the cost of current benefits to future fiscal years. For employees, defined contribution plans allow workers to take their money with them when they change jobs and create individual assets they own and can be passed along to heirs. By adopting ACA 5, California would follow a number of states that have shifted to some form of defined contribution plan during the last decade, including Colorado, Florida, Michigan, Montana and South Carolina.

"Retirement costs for state employees alone have grown from $200 million in 2000 to $2.6 billion this year, heading to $3.5 billion in 2009. ACA 5 will begin to stabilize and reduce these retirement costs as the Legislature and Governor Schwarzenegger struggle to eliminate California's $10 billion structural budget deficit. While current employees and retirees will see no change in their retirement plans, new public employees will be offered the same type of plan offered to most private sector employees and currently offered to state workers without an employer match," Richman said.

ACA 5 recognizes the shorter career spans of sworn police officers and full-time firefighters through an enhanced matching fund formula designed to equalize their pension earning opportunities. It would also eliminate the connection between defined benefit plans and disability compensation that has been fertile ground for abuses such as "chief's disease" where employees routinely file questionable disability claims in their final years of service.

"California's public pension system has generated federal criminal investigations, grand jury reports and many billions in unfunded liabilities that will take decades to pay down. It is time to stop making expensive commitments that crowd out the investments in schools, roads, health care and public safety that we need to make to improve California's declining future," Richman concluded.

More information about California's pension crisis can be found at www.assembly.ca.gov/richman or by calling 916-319-2038.

Dr. Keith Richman is a Republican California State Assemblyman representing the 38th District, covering the Northwest San Fernando Valley, Simi Valley and Santa Clarita.

-30-

California's Fiscal Outlook
Legislative Analyst's Office
Projected General Fund Spending
2003-04 Through 2008-09

RETIREMENT-RELATED PAYMENTS

(Dollars in millions):

2003-04 Estimated	**$1,083**
2004-05 Estimated	**$1,901**
2005-06 Forecast	**$2,360**
2006-07 Forecast	**$2,574**
2007-08 Forecast	**$2,869**
2008-09 Forecast	**$3,157**
2009-10 Forecast	**$3,424**

Average Annual Growth From 2005-06: 9.8%

PUBLIC PENSIONS: COUNTY PENSION COSTS

Source: PERS and other data collected independently by the Legislative Analyst's Office.

10 PERS Counties with Greatest Unfunded Liabilities

(Valuations as of June 30, 2002)

County	Unfunded Liability	Funded
Riverside	$215,976,588	92%
Solano	66,467,679	89%
Santa Clara	34,537,990	99%
Butte	19,984,007	93%
El Dorado	16,061,500	95%
Colusa	8,220,051	87%
Santa Cruz	6,016,465	99%
Glenn	6,016,434	91%
Trinity	4,686,574	90%
Humboldt	4,265,841	98%

PERS Counties Below 90 Percent Funded Status

(Valuations as of June 30, 2002)

County	Unfunded Liability	Funded
Colusa	$8,220,051	87%

All other PERS counties at least 90% funded.

10 Independent Counties with Greatest Unfunded Liabilities

(Valuations as of June 30, 2003)

County	Unfunded Liability	Funded
Los Angeles	$3,910,000,000	87%
San Diego	1,435,000,000	76%
Orange	978,079,531	83%
San Bernardino	552,838,000	87%
Alameda	508,286,000	87%
Fresno	419,500,000	79%
Contra Costa	380,888,000	90%
Kern	328,800,000	83%
Sacramento	243,894,000	94%
Ventura	145,000,000	93%

Independent Counties Below 90 Percent Funded Status

(Valuations as of June 30, 2003)

County	Unfunded Liability	Funded
San Diego	$1,435,000,000	76%
San Luis Obispo	125,970,000	77%
Fresno	419,500,000	79%
Orange	978,079,531	83%
Kern	328,800,000	83%
Los Angeles	3,910,000,000	87%
San Bernardino	552,838,000	87%
Alameda	508,286,000	87%
Sonoma	113,225,000	89%

All other non-PERS counties at least 90% funded.

PUBLIC PENSIONS: CITY PENSION COSTS

Source: PERS and other data collected independently by the Legislative Analyst's Office.

25 CITIES WITH GREATEST UNFUNDED LIABILITIES

(Valuations as of June 30, 2002)

City	Unfunded Liability	Percent Funded
San Diego	$ 720,713,000	77%
Oakland	414,679,366	83%
Stockton	73,603,590	90%
Torrance	66,015,998	84%
Santa Rosa	47,690,632	88%
Santa Clara	47,473,702	91%
Sacramento	45,366,361	95%
Richmond	45,260,454	90%
Fremont	43,475,077	90%
Riverside	43,363,234	95%
Pasadena	40,353,874	95%
Alameda	36,270,882	88%
Berkeley	35,992,298	94%
Vallejo	34,055,329	89%
Santa Barbara	33,948,717	91%
Roseville	32,307,066	83%
San Jose	27,885,000	99%
Hayward	27,856,133	93%
Bakersfield	27,738,146	94%
Santa Cruz	27,251,564	87%
Costa Mesa	26,662,532	90%
San Mateo	26,433,611	90%
Santa Monica	25,753,288	85%
South SF	23,975,610	89%
SLO	21,328,874	84%

15 CITIES WITH LOWEST PERCENT FUNDED SAFETY PLANS

Over $1 million in Unfunded Liability

(Valuations as of June 30, 2002)

City	Unfunded Liability	Percent Funded
Ojai	1,138,690	22%
Pittsburg	9,271,646	53%
Corning	1,715,925	59%
Seal Beach	3,216,173	60%
Pasadena	69,123,151	65%
Oakland-PERS	189,935,709	66%
Brentwood	3,805,629	67%
Calistoga	1,356,698	68%
Hercules	1,658,424	69%
Orland	1,040,388	69%
Oakland-NonPERS	275,663,000	69%
Santa Cruz	9,829,886	71%
Huntington Park	15,700,667	71%
Murrieta	2,009,041	71%
Port Hueneme	3,619,320	72%

190 Safety plans are below 90% funded status

15 CITIES WITH LOWEST PERCENT FUNDED NON-SAFETY PLANS

Over $1 million in Unfunded Liability

(Valuations as of June 30, 2002)

City	Unfunded Liability	Percent Funded
Pittsburg	10,351,613	27%
Brentwood	4,973,961	70%
Shafter	1,836,873	74%
Folsom	8,082,442	80%
Rosemead	1,261,264	81%
Roseville	22,257,548	82%
Mission Viejo	2,244,830	83%
Wasco	1,221,697	84%
Susanville	1,119,444	84%
San Fernando	2,980,775	85%
Cerritos	10,564,588	85%
Capitola	1,335,502	86%
San Luis Obispo	8,154,576	87%
Piedmont	1,123,307	87%
Palmdale	4,961,403	87%

38 cities are below 90% funded status

PUBLIC PENSIONS: CITY AND COUNTY CONTRIBUTION RATES

Source: PERS and other data collected independently by the Legislative Analyst's Office.

15 CITIES WITH HIGHEST CONTRIBUTION RATE
SAFETY PLANS
(Valuations as of June 30, 2002)

City	Contribution Rate
Huntington Park	49.767%
Fillmore	46.875%
Compton	45.989%
Santa Cruz	44.014%
Pomona	43.705%
Torrance	43.338%
San Diego	43.070%
Seal Beach	42.445%
El Centro	41.028%
South Gate	40.076%
Berkeley	39.971%
Stockton	39.512%
Maywood	39.115%
Alameda	38.916%
Redondo Beach	38.807%

15 CITIES WITH HIGHEST CONTRIBUTION RATE
NON-SAFETY PLANS
(Valuations as of June 30, 2002)

City	Contribution Rate
Canyon Lake	22.389%
San Diego	22.070%
Chico	19.992%
Susanville	19.027%
Cerritos	18.719%
San Fernando	18.572%
Sutter Creek	18.434%
Pittsburg	18.188%
Daly City	17.828%
Industry	17.776%
Chula Vista	17.428%
Parlier	17.414%
Westlake Village	17.313%
Palm Springs	17.193%
Ukiah	16.342%

15 COUNTIES WITH HIGHEST CONTRIBUTION RATE
SAFETY PLANS
(Valuations as of June 30, 2002)

PERS - Counties	Contribution Rate
Glenn	33.239%
Monterey	33.029%
Modoc	30.837%
Tuolumne	30.707%
Siskiyou	30.561%
Calaveras	30.430%
El Dorado	28.965%
Colusa	28.663%
Placer	28.001%
Mono	27.989%
Independent Counties	*Valuations from June 30, 2003*
Orange	39.39%
San Diego	34.99%
Contra Costa	32.67%
Mendocino	32.23%
Sacramento	31.40%

15 COUNTIES WITH HIGHEST CONTRIBUTION RATE
NON-SAFETY PLANS
(Valuations as of June 30, 2002)

City	Contribution Rate
Sierra	18.617%
Colusa	17.546%
Solano	16.442%
Riverside	15.354%
Mariposa	13.332%
Trinity	12.450%
Glenn	12.267%
Alpine	10.133%
El Dorado	10.071%
Butte	9.904%
Independent Counties	*Valuations from June 30, 2003*
San Diego	25.59%
Alameda	22.25%
Mendocino	20.11%
Los Angeles	20.02%
Contra Costa	18.35%

PUBLIC PENSIONS: RAMPANT BOND ISSUING MASKS PROBLEM

Source: California State Treasurer's Office.

PENSION OBLIGATION BONDS ISSUED SINCE 1994

Year	Bonds Issued	Principal Amount	Refinanced Amount
1994	3	$2,285,270,233	$2,285,270,233
1995	9	$2,143,353,621	$532,785,000
1996	4	$786,663,512	$469,480,326
1997	5	$680,012,740	$136,923,081
1998	3	$206,465,000	$206,081,087
1999	3	$201,290,000	$163,070,000
2000	1	$211,350,000	$211,350,000
2001	3	$377,641,449	$202,625,591
2002	10	$1,279,185,000	$597,715,360
2003	9	$1,295,077,111	$920,085,253
2004*	22	$2,280,542,928	$644,038,975
TOTALS	72	**$11,746,851,594**	$6,369,424,906

* Through October 13, 2004

NOTE: Annual payments on a $1 billion 20-year bond at 4% is $73 million.

PUBLIC PENSIONS: PENSION OBLIGATION BONDS – 1994-2004

Source: California State Treasurer

CDIAC #	Sale Date	Issuer	Project Name	Principal Amount	Refinance Amount
		1994 (3 Refunding Issues)			
1994-1438	09/20/1994	Orange County	Series A	$209,840,000	$209,840,000
1994-1597	09/26/1994	Orange County	Series B	$110,200,000	$110,200,000
1994-1439	10/13/1994	Los Angeles County	Pension Obligation	$1,965,230,233	$1,965,230,233
			Total:	**$2,285,270,233.00**	**$2,285,270,233**
		1995 (4 Refunding Issues)			
1995-0212	04/20/1995	Alameda County	Pension Fund	$310,150,000	$310,150,000
1994-0300	06/22/1995	Sacramento County	Pension Obligation	$538,060,208	$0
1994-0735	07/10/1995	Santa Rosa	Pension obligation	$8,665,000	$8,665,000
1995-1308	09/12/1995	Stanislaus County	Pension Obligation	$108,970,000	$108,970,000
1995-1384	10/24/1995	Long Beach	Pension obligation	$108,635,000	$105,000,000
1995-1661	11/22/1995	San Bernardino County Financing Authority	Pension Obligation	$420,527,487	$0
1995-1749	11/22/1995	San Bernardino County	Pension Obligation	$386,265,591	$0
1995-1750	11/22/1995	South Coast Air Quality Management District	Pension Obligation	$34,261,896	$0
1995-1626	11/28/1995	Kern County	Pension Obligation	$227,818,439	$0
			Total:	**$2,143,353,621.00**	**$532,785,000**

		1996 (3 Refunding Issues)			
1996-0343	04/30/1996	Los Angeles County	Pension	$327,400,000	$327,400,000
1996-0892	06/12/1996	Orange County	Pension Obligation	$121,680,326	$121,680,326
1996-1690	12/09/1996	Mendocino County	Pension Obligation	$30,720,000	$0
1996-1717	12/12/1996	Alameda County	Pension Obligation	$306,863,186	$20,400,000
			Total:	**$786,663,512.00**	**$469,480,326**
		1997 (1 Refunding Issue)			
1997-0032	01/14/1997	Orange County	Pension Obligation	$136,923,081	$136,923,081
1997-0114	02/25/1997	Oakland	Pension Obligation Series A & B	$436,289,659	$0
1997-0966	05/22/1997	Tulare County	Insurance and pension funds	$41,460,000	$0
1997-1573	09/24/1997	Tulare County Public Finance Authority	Co Health Insurance	$30,165,000	$0
1997-1681	11/19/1997	Imperial County	Pension Funding	$35,175,000	$0
			Total:	**$680,012,740.00**	**$136,923,081**
		1998 (3 Refunding Issues)			
1998-0034	03/12/1998	Fresno County	Pension Obligation	$184,910,000	$184,910,000
1998-1060	05/19/1998	Berkeley	Insurance and pension funds	$12,415,000	$12,031,087
1997-1596	07/02/1998	Trinity County	Insurance and pension funds	$9,140,000	$9,140,000
			Total:	**$206,465,000.00**	**$206,081,087**
		1999 (2 Refunding Issues)			
1999-0071	02/02/1999	Merced County	Insurance and pension funds	$63,070,000	$63,070,000
1999-	07/29/1999	Pasadena	Insurance and pension	$101,940,000	$100,000,000

1580			funds			
1999-1895	11/03/1999	Richmond	Richmond Police/Firemen's Pension Fund		$36,280,000	$0
				Total:	**$201,290,000.00**	**$163,070,000**
			2000 (1 Refunding Issue)			
2000-1278	07/11/2000	Fresno	Insurance and pension funds		$211,350,000	$211,350,000
			2001 (2 Refunding Issues)			
2001-0103	03/08/2001	Contra Costa County	Pension Obligation		$107,005,000	$10,255,000
2001-0506	06/01/2001	Imperial Irrigation District	Insurance and pension funds		$75,000,000	0
2001-1663	10/03/2001	Oakland	Insurance and pension funds		$195,636,449	$192,370,591
				Total:	**$377,641,449.00**	**$202,625,591**
			2002 (6 Refunding Issues)			
2001-2134	01/16/2002	California Administrative Services Authority	Sacramento City USD		$6,295,000	$0
2002-0029	01/23/2002	Fresno	Insurance and pension funds		$205,335,000	$202,600,000
2002-0125	03/01/2002	Fresno County	Insurance and pension funds		$117,055,000	$117,055,000
2002-1483	08/14/2002	Long Beach	Series A		$44,000,000	$44,000,000
2002-1484	08/14/2002	Long Beach	Series B		$43,950,000	$43,950,000
2002-1654	09/05/2002	Imperial County	Insurance and pension funds		$33,265,000	$0
2002-1684	09/17/2002	San Diego County	Series A		$132,215,000	$0
2002-1686	09/18/2002	San Diego County	Series C		$100,000,000	$0

2002-1685	10/01/2002	San Diego County	Series B	$505,125,000	$176,890,299
2002-1964	12/12/2002	Mendocino County	Insurance and pension funds	$91,945,000	$13,220,061
			Total:	**$1,279,185,000.00**	**$597,715,360**
2003 (7 Refunding Issues)					
2003-0341	04/23/2003	Contra Costa County	Insurance and pension funds	$322,710,000	$319,094,719
2003-0643	05/06/2003	Marin County	Insurance and pension funds	$112,805,000	$109,826,000
2003-0816	05/13/2003	Sonoma County	Series A & B	$231,200,000	$0
2003-0409	05/15/2003	Kern County	Series A	$238,177,067	$238,177,067
2003-0818	05/22/2003	Kern County	Series B	$50,000,000	$50,000,000
2003-0467	06/26/2003	San Luis Obispo County	Series A, B & C	$137,194,398	$0
2003-0752	07/02/2003	Santa Rosa	Series B	$30,170,000	$30,166,821
2003-1300	07/15/2003	Sacramento County	Insurance and pension funds	$152,320,646	$152,320,646
2003-0751	07/15/2003	Santa Rosa	Series A	$20,500,000	$20,500,000
			Total:	**$1,295,077,111.00**	**$920,085,253**
2004 (9 Refunding Issues)					
2004-0075	03/10/2004	Fresno County	Series A	$327,897,749	$0
2004-0368	03/10/2004	Fresno County	Series B	$75,000,000	$0
2004-0560	06/09/2004	San Bernardino County	Series A	$189,070,000	$189,070,000
2004-0640	06/10/2004	Solano County	Series A	$36,665,000	$0
2004-1345	06/10/2004	Solano County	Series B-1, B-2 & B-3	$60,000,000	$0

2004-0688	06/15/2004	California Statewide Communities Development Authority	Pension Obligation Series A-1 & A-2	$197,084,195	$0
2004-0558	06/17/2004	South Coast Air Quality Management District	Insurance and pension funds	$47,030,000	$47,030,000
2004-0450	06/17/2004	Union City	Pension Obligation	$22,997,973	$0
2004-1245	06/21/2004	San Bernardino County	Series B	$149,825,000	$149,825,000
2004-1246	06/21/2004	San Bernardino County	Series C	$125,000,000	$125,000,000
2004-0343	06/22/2004	Burbank	Insurance and pension funds	$25,120,000	$25,115,000
2004-0870	06/23/2004	San Diego County	Series A	$241,360,000	$0
2004-0871	06/23/2004	San Diego County	Series B	$147,825,000	$0
2004-0872	06/23/2004	San Diego County	Series C	$64,927,916	$0
2004-1199	06/24/2004	Pomona	Series AJ	$32,300,000	$32,300,000
2004-1200	06/24/2004	Pomona	Series AK	$5,700,000	$5,700,000
2004-0707	06/24/2004	Sacramento County	Series C-1, C-2 & C-3	$426,131,120	$0
2004-0869	06/29/2004	Kings County	Pension Obligation	$6,870,000	$0
2004-0868	06/29/2004	Butte County	Series B	$21,875,000	$0
2004-1350	07/01/2004	Butte County	Series C	$7,865,000	$0
2004-1603	10/12/2004	Sacramento Metropolitan Fire District	Series A	$37,930,000	$37,930,000
2004-1756	10/12/2004	Sacramento Metropolitan Fire District	Series B & C	$32,068,975	$32,068,975
			Total:	**$2,280,542,928**	**$644,038,975**

Public Pensions: Contra Costa County Crisis

Contra Costa: Pension Impact on General Fund

Fiscal Year	Retirement Expense General Fund (millions)	As a % of General Fund
1994-95	$ 29.4	5.78 %
1998-99	41.6	7.39 %
2001-02	53.8	6.73 %
2003-04	80.6	9.32 %
2004-05	103.9	12.26 %
2005-06	???	???

- ***With an additional Unfunded Liability of $1.2 Billion***

- ***Not including Unfunded Retiree Health Costs***

LOCAL GOVERNMENTS IN CRISIS

Contra Costa County:

Source: Contra Costa County Grand Jury Report No. 0409 entitled "Budget Woes and Layoffs: The Contributions of Pension Improvements," and the Contra Costa County Supervisors response to the report.

- ***Significant cost increase to County:*** In fiscal year 2003-2004 retirement expenses to the General Fund were $80.6 million dollars or 9.32% of the General Fund and in fiscal year 2004-2005 costs jumped to $103.9 million or 12.26% of their General Fund.

- ***Over $1 billion in outstanding liability for past pension costs:*** As of 12/31/03 the County's total outstanding liability for past pension costs was $1.06 billion. This included $587 million in outstanding pension obligation bonds.

- ***Pension costs more than 12 % of General Fund:*** In fiscal year 1994-1995 retirement expenses consumed 5.78 % of the General Fund or $29.4 million. The 2004-2005 costs ballooned to 12.26 % of the General Fund or $103 million.

City of San Diego:

Source: Final Report of the City of San Diego Pension Reform Committee.

- ***Unfunded liability exceeds $1 billion:*** By January 1, 2004, the City's pension Unfunded Actuarial Accrued Liability (UAAL) had increased to $1.167 billion. In comparison San Diego's 2002-2003 General fund including Special fund dollars was $1.951 billion. Employment Costs were nearly $850 million.

- ***Funding status is below 70%:*** On January 1, 2004 the system was only 68.7 % funded.

- ***Benefit improvements identified as main reason for under-funded problem:*** Committee identifies Investment Performance as 6% of the problem, Under-funding by the city as 10%, Use of Plan earnings for contingent benefits as 12% of the problem, and Net Actuarial Losses as 31% of the problem, and Benefit Improvements as 41% of the problem.

Orange County:

- ***Unfunded liability exceeds $1 billion:*** The County's unfunded accrued pension liability is now about $1.3 billion for the cost of covering benefits for retired and current county employees. *Source: LA Times November 13, 2004 article "O.C. Looks to Fill Pension Gaps"*

- ***Recent August 2004 benefit increase raise liability by $300 million:*** Because the contract is retroactive to cover all existing employees, it will add nearly $300 million in liabilities to a system that already is about $1 billion forecasted retirement demands. ***Source: OC Register August 15, 2004 article "Bankruptcy, Part II?"***

- ***Benefit increases approved as services are cut:*** In December 2002, supervisors approved a $75-million package of employee perks and bonuses at the same time layoffs and service cutbacks were being considered, triggering criticism by an Orange County Grand Jury. *Source: LA Times November 13, 2004 article "O.C. Looks to Fill Pension Gaps"*

<u>Riverside County:</u>
Source: Report of the Pension Advisory Review Committee

- ***Board of Supervisors seeks bonds to reduce $470 million pension deficit:*** On November 5, 2004 the Board of Supervisors approved in concept the issuance of Pension Obligation Bonds to deal with the projected June 2005 unfunded actuarial liability of $470 million.

- ***Pension fund level plummeted over past 6 years:*** "The projected June 30, 2005 unfunded actuarial liability is $96.6 million for the Safety Plan and $374.4 million for the Miscellaneous. This is a dramatic swing from June 30, 2000 when the County's Miscellaneous Plan was "super-funded" by $439.9 million and the Safety Plan was super-funded by $90.7 million."

- ***Increased benefit level again impact funding status:*** "The decline in funding status for both plans is attributable to market losses, a new benefit structure for Safety employees (3% @ 50) and Miscellaneous employees (3% @ 60), as well as payroll growth and other actuarial factors."

<u>Santa Clara County:</u>
Source: Santa Clara County Civil Grand Jury Report – May 2004

- ***Benefit costs rise at alarming rates:*** "As a percent of salaries paid, the contributions have increased from 8% to 9.3% from fiscal year 2001-2002 to the present. The County's cost for funding retirement plans has increased almost 50%, from $66 million to a projected $95 million over the same period."

- ***Budget shortfall made worse by increased contributions:*** "Current County and San Jose budget shortfalls are made worse by required increases in contributions to the retirement systems, but potentially more serious problems loom in the future that may burden local government with very high fixed costs, requiring increased revenue or reduced services."

- ***Employees continue to seek higher benefits which could cost an additional $235 million:*** Mercer Human Resource Consulting prepared an actuarial valuation for San Jose should they choose to enhance the public safety personnel pensions to mirror the CalPERS 3%-per-year-at-age-50 model. Enhancing the pension benefit from an 85% maximum to 90% would cost $235 million for vested liabilities. Amortized over the next 14 years, this would add $24 million to a current budget line of $50 million.

PUBLIC PENSIONS: LOCAL GOVERNMENT SERVICES SUFFERING

SERVICES SQUEEZED AS PENSION COSTS SWELL

- ***Contra Costa County: Retirement costs will supplant other city services such as "infrastructure repair, law enforcement, social welfare and health:"*** "Retirement costs continue to increase as a percentage of the General Fund, critical services such as infrastructure repair, law enforcement, social welfare and health will be reduced. Many of these recommendations will fall upon those that can least afford to lose these services." *Contra Costa Grand Jury Report - June 2004.*

- ***San Joaquin County: Pension cost increases are 5 times more than the budget for parks and recreation.*** The County will spend $17.8 million more annually to pay a record increase in pension costs. County administrators were uncertain how the county would pay for the increase, an amount which exceeds the county's entire budget for contingencies and is more than five times what is to be spent on parks and recreation for this fiscal year. *Stockton Record - December 1, 2004*

- ***City of Salinas: Closing Library to deal with additional costs:*** Administrative manager Jan Neal, blamed the closing on a combination of state raids on local budgets; a poor economy; dramatic increases in contractual benefits and <u>payments to the state public employee retirement system</u>; and a county government. *San Jose Mercury News – November 21, 2004*

- ***City of Oakland: Retirement Costs will impact services "from filling potholes to recreational programs:"*** Oakland is estimating a budget shortfall of $27.7 million and $15.5 million in additional retirement costs over the next two years is largely to blame. City Administrator Deborah Edgerly has proposed a range of ways to close the deficit, including a 3 percent across-the-board cut, which would include police and fire departments. That would mean lessened services to residents, from filling potholes to recreational programs, according to an article in the Oakland Tribune. *Oakland Tribune – November 21, 2004.*

- ***LA County Fire Overworks Firefighters because New Hire Benefits Are So Excessive:*** Benefits for L.A. County firefighters are such that it is now cheaper to pay massive amounts of overtime than to hire more firefighters. Fire Chief P. Michael Freeman: "As ridiculous as it sounds, it's more cost-effective to bring in a firefighter from home and pay them time and a half because we don't have to pay more benefits for them." *Los Angeles Daily News – July 4, 2004*

- ***City of Richmond: Firefighters losing jobs***: The city has laid off 18 firefighters since January, bringing the department down to 60. *USA Today – November 29, 2004*

- ***Riverside County: "We should not be priding ourselves on avoiding service cuts. We ought to be expanding services:"*** Riverside County Supervisor Bob Buster said the problem is not only that there is not enough money to pay benefits, it is that the additional obligation stemming from the unfunded liability is hurting the county's ability to serve a rapidly urbanizing region with a population approaching 2 million. "In a county with this kind of rapid growth, we should not be priding ourselves on avoiding service cuts," Buster said. "We ought to be expanding services." *North County Times – November 16, 2004*

- ***Taxpayers ultimately liable for unfunded burden:*** "The employer is ultimately liable for the provision of benefits, without regard to the level of contributions previously made, the investment performance, or accuracy of various actuarial assumptions." *Riverside County Report of the Pension Advisory Review Committee- May 2004.*

- ***Pension Crisis is a ticking time bomb:*** Orange County Treasurer John Moorlach said, "It's a ticking time bomb, and everybody keeps walking around like there's no problem." *Modesto Bee – November 14, 2004*

- ***Santa Clara County and the City of San Jose: Budgets already stretched too far*:** The rising costs of funding retirement programs to the County and to San Jose will impact already stretched budgets and makes the delivery of essential public services to communities more expensive. It is incumbent upon elected officials in the County to balance the benefits provided to government employees against the funding of essential public services. This is especially important now when revenues from local and state sources are strained. *Santa Clara County Civil Grand Jury – May 2004*

- ***Teacher pension plans woefully underfunded and in serious jeopardy:*** Officials predicted, benefits for future retirees will have to be cut by $50 to $500 a month to erase a funding gap expected to be $23.1 billion in three decades. *Sacramento Bee – December 3, 2004*

- ***Inadequate mortality tables contribute to San Joaquin County pension increase:*** The county's $1.6 billion pension fund has performed well in the stock market, county Retirement Administrator Robert Palmer said. But he said it has been hurt by retirees' longevity. *Stockton Record - December 1, 2004*

- ***City and county managers forced to cut services to pay pension costs:*** Pension benefits for California's state and local public sector workers are taking an increasing share of government spending, and taxpayers remain at risk for the long-term cost of benefits already awarded. From Contra Costa County to the city of San Diego, managers are being forced to cut other programs and services to pay for retirement benefits.

- ***Layoffs, tax increases, and bankruptcy?:*** The Register has called that cascading problem the "pension tsunami," as the tidal wave of new benefits will start overcoming government budgets, one after another. "It's a political problem," said Moorlach. "We have electeds who seem to believe the line that it doesn't cost anything. But now we have cities up north that are sucking air. They've increased benefits so much, and now they can't afford to pay them. They are looking at layoffs, tax increases, and all the stuff we had to do after the bankruptcy."

THE CALIFORNIA PUBLIC EMPLOYEE DEFINED CONTRIBUTION PLAN

Plan Structure:

- Prohibit defined benefit plans for state, local government and special districts and establishes a framework for new fiscally responsible defined contribution plans.

Eligibility:

- After July 1, 2007, all new state, local government and school employees may only enroll in a defined contribution pension plan.
- Current employees may voluntarily convert their existing Defined Benefit pension plan to the new defined contribution program during a one-time open enrollment period.

Design:

- Establish a maximum employer contribution.
- Provide for enhanced public safety classifications.
- Allow the use of private fund administrators.
- Establish a vesting period.
- Provide retirement education to employees
- Encourage employee enrollment.

SOLUTION: WHY ADOPT A DEFINED CONTRIBUTION RETIREMENT PLAN

BENEFITS OF A DEFINED CONTRIBUTION RETIREMENT PLAN

Eliminates Risk of Unfunded Liability:

- Defined contribution plans are fully funded.
- In contrast, defined benefit plans expose taxpayers to future liabilities.

Retirement Benefits are Portable:

- Most employees have multiple jobs in his/her lifetime.
- Benefits from a defined contribution plan can be consolidated into an IRA or other qualified plan.
- Benefits can easily be passed on to heirs.

Quicker Vesting Period:

- Defined benefit plans generally require more than five years of service before an employee is vested.
- Alternatively, defined contribution plans vest in employer contributions more quickly and immediate vesting is possible.

Control Over Retirement Earning Options:

- There are no limits to the benefits an employee may earn in a defined contribution plan.
- Short-term employees benefit from investment based plans. These workers typically get substantially reduced benefits because defined benefit formulas reward greater tenure.
- Encourages workers to actively participate in their retirement planning.

Improved Employee Recruiting:

- Short vesting schedules and portable retirement benefits make defined contribution plans attractive to younger, well-qualified employees.
- Puts government sector on equal footing with private sector competitors.

Greater Flexibility for Women:

- Women are more likely to have interrupted work schedules because of family responsibilities.
- Quicker vesting and portable benefits give women greater options.

THE PLANS: UNDERSTANDING THE DIFFERENT RETIREMENT PLANS

BASIC PLAN DEFINITIONS

DEFINED CONTRIBUTION PLANS

A Defined Contribution (DC) plan is a retirement savings plan where employers and employees make tax-deferred contributions to individually-owned accounts. These contributions are invested and the employees get the investment earnings and principle when they retire or leave the system.

A DC does not specify the retirement benefit to be received by the employee. Rather, it specifies a contribution, typically expressed as a percentage of compensation, which is deposited into an individual account for each participant.

The actual benefit for the participant is based solely on the amount contributed to the account by the employer and participant, and the investment earnings attributable to that account.

DEFINED BENEFIT PLANS

With the notable exception of the 20 county systems organized under the 1937 County Employees Retirement Act, PERS and STRS provide retirement benefits to most of California's public employees.

The plans offered by these systems are Defined Benefit (DB) plans, where employees receive a predetermined benefit upon retirement. In a DB plan, the benefit is determined by a formula that includes the number of years of service, the employee's "final compensation," and a factor to be applied to equation based on the employees age at retirement.

While the benefit is specified in advance for the employee, the actual cost to the employer is based on actuarial analyses of accrued assets as they are applied to accrued liabilities, incorporating projections for future earnings, wage inflation and other factors outside of the employer's control.

THE PLANS: COMPARING THE ADVANTAGES BETWEEN A DC VS. DB

NOTABLE ADVANTAGES TO EACH RETIREMENT PLAN

Defined Benefit Plan	Defined Contribution Plan
▪ Employer bears investment risk. ▪ The retirement benefit is predictable and known, based on the various benefit formula of retirement plans. ▪ For employees with many years of service, the defined benefit formula may provide a larger benefit. ▪ An employee cannot outlive his or her benefits ▪ Benefit increase with each year worked. ▪ A disability annuity is generally provided. ▪ If an employee has five years of earned service, the employee may augment its service years and purchase up to five years of non-qualified service to enhance future benefits. ▪ Cost-of-living adjustments are generally guaranteed and designed to mitigate impact of inflation on retiree. ▪ Survivor annuity protects significant others.	▪ Employees choose and self direct their investments from professionally managed investment products and have access to investment information. ▪ Employees have an opportunity to for increased retirement income based on their investment decisions. ▪ Shorter vesting periods. ▪ Younger employees have many years to invest their account balances. ▪ Employees can transfer balances to other qualified plans or and Individual Retirement Account (IRA) upon distribution. ▪ Portability features provide a potential for more retirement income for employees who have several changes during their careers. ▪ Flexible benefit options may include lump-sum distribution, partial distributions, or withdraws. ▪ Immediate survivor benefit based on an employee's account balance (including employer contributions and earnings).

THE PLANS: COMPARING THE DISADVANTAGES BETWEEN A DC VS. DB

NOTABLE DISADVANTAGES TO EACH RETIREMENT PLAN

Defined Benefit Plan	Defined Contribution Plan
▪ Employees with shorter service or who leave their job before retirement might not earn a large benefit or even qualify for a benefit. ▪ Employees have no say in plan investment decisions. ▪ Benefits are reduced if an employee chooses an early retirement option. ▪ If an employee terminates employment and gets a refund, the employee receives his or her contributions and interest, but not the employer contribution.	▪ Employees bear investment risk; therefore they must actively monitor their investments. Poor investment decisions may result in lower benefits. ▪ Older employees may have too few years before retirement to accumulate a large account balance. ▪ Employees assume responsibility for retirement income cash flow and inflation protection. ▪ Death and disability benefits include members account balance. Unless additional death or disability benefits are provided by group term life or disability plans, the members account balance may be insufficient for members with shorter service.

NOTABLE CONSIDERATIONS OF EACH RETIREMENT PLAN

Defined Benefit Plan	Defined Contribution Plan
▪ A DB plan resembles an insurance plan, in that it provides a guaranteed, predicable retirement benefit based on specific formula and participation in the program. ▪ Defined Benefit plans attract employees that: ✓ Want a guaranteed benefit for life that is not affected by fluctuations in the financial markets. ✓ Plan to stay with a covered employer for many years. ✓ Prefer the state to make investment decisions.	▪ A DC plan is a 401k style investment plan resembling a saving accumulation program allowing for greater individual control of the plan choices. ▪ Defined Contribution plans attract employees that: ✓ Want investment control and are willing to assume the related risk for the opportunity for potential growth of their retirement money. ✓ Do not plan to spend their entire career with a covered PERS employer and benefit from the portable plans. ✓ May leave and reenter the workforce at various times for family or other personal reasons.

THE PLANS: KEY PENSION PLAN FEATURES

KEY OBJECTIVES COMPARED

	Defined Contribution Plan	Defined Benefit Plan
Portability:	Account accumulations are fully portable	Benefits are not portable outside of the sponsor's jurisdiction
Vesting:	Short vesting schedule	Typically longer vesting period
Contributions:	Employer contributions are statutorily defined and predictable	Variable employer contributions subject to the political process
Benefit Payments:	Benefit payments made from accrued investment earnings and principle	Benefit formulas determine retirement benefits to be paid by plan sponsor
Volatility:	Benefits directly related to investment performance	Benefits have no direct relationship to investment performance
Choice:	Employee makes investment decisions	Employer makes investment decisions
Risk:	Employee assumes the risk for investment performance	Employer funds guaranteed benefits and assumes investment risk
Unfunded Liability:	No unfunded liability problem	Strong possibility of future unfunded liability

WAGES: PUBLIC VS. PRIVATE WEEKLY WAGES COMPARISON

AVERAGE WEEKLY WAGE DIFFERENCES

Source: EDD - Employment data from Current Employment Statistics Program; and wage data from the Quarterly Census of Employment and Wages Program

Industry	2003 Average Weekly Wages	2003 Annual Average Employment
Private Sector	$805	11,983,700
Local Government	$850	1,696,200
State Government	$966	471,600
Federal Government	$1,043	258,700
Total Government	$893	2,426,500

PUBLIC VS. PRIVATE SALARY COMPARISON

Source: Department of Personnel Administration's December 2003
Report on Salaries for Occupations Comparable to Selected State Civil Services Classifications

Office and Administration	**Average State Salary**	**Average Private Salary**	**Government Salary Range**
Accountant – Journey	4,750	4,928	3,110 – 6,220
Accountant – Entry/Sub-Journey	3,305	3,802	2,743 – 5,592
Administrative Analyst – Journey	4,780	5,274	3,759 – 6,995
Administrative Analyst – Entry/Sub-Journey	3,720	4,240	2,471 – 5,592
Attorney – Senior Journey	9,328	10,417	5,643 – 15,205
Attorney – Journey	7,696	7,665	4,742 – 10,879
Attorney – Entry/Sub-Journey	5,126	6,079	3,382 – 7,788
Clerk/Clerk Typist – Senior Journey	2,945	2,503	1,831 – 4,258
Clerk/Clerk Typist – Journey	2,506	2,330	1,646 – 3,564
Clerk/Clerk Typist – Entry/Sub-Journey	2,181	2,042	1,466 – 3,194
Data Processing Analyst – Journey	5,009	5,394	3,480 – 8,192
Data Processing Analyst – Entry/Sub-Journey	3,927	4,545	2,320 – 6,767
Librarian – Journey	4,594	3,922	3,092 – 9,062
Engineering and Allied			
Civil Engineer/Civil Engineer Registered – Supervisory Level	6,457	7,342	4,458 – 9,687
Civil Engineer/Civil Engineer Registered – Registered Journey	5,710	6,116	3,692 – 7,633
Civil Engineer/Civil Engineer Registered – Registered Journey	4,660	5,149	3,042 – 6,367
Drafter	3,769	3,691	2,389 – 4,942
Engineering Technician – Journey	4,239	3,704	2,604 – 5,472
Crafts and Trades			
Electrician – Journey	3,902	4,298	2,756 – 6,608
Janitor/Custodian	2,315	2,093	1,156 – 3,629
Stationary Engineer – Journey	4,606	4,727	3,259 – 5,352
Medicine and Rehabilitation			
Licensed Vocational Nurse – Journey	2,862	3,862	2,053 – 4,844
Registered Nurse – Journey	4,443	5,599	3,303 – 6,637
Pharmacist – Journey	5,748	7,760	5,008 – 9,363
Staff Psychologist (PhD)	5,570	6,605	3,768 – 9,062
Social Worker (MSW)	3,839	5,361	2,657 – 5,592

PENSION CRISIS: RECENT PRESS

Scathing Report Cites San Diego's Poor Management: An investigation by lawyers hired by the city produced a scathing report citing dysfunctional management of the city of San Diego over generous pension deals with public employee unions and in financial dealings with Wall Street.

As reported September 17 in the San Diego Union-Tribune and Los Angeles Times, the report found no evidence of criminal activity, although it and related documents have been turned over to federal investigators looking into possible violations of securities laws. The city understated its fiscal problems, stemming from enormous pension debt, in sewage treatment bond papers filed with the Securities and Exchange Commission.

The report was released by Vinson & Elkins, a Washington, D.C. law firm, and it opened by saying San Diego's "image as a model of fiscal responsibility has been seriously tarnished."

Failure to disclose to investors the city's retirement deficit ($1.17 billion, plus $1 billion in unfunded health costs) was noted in the report. It also included a handwritten memo from the city's treasurer, Mary Vattimo, of March 13, 2003 saying that unfunded liability was projected to soar to $5 billion by 2021.

The Times reported that top officials were "willfully ignorant of key financial details and elected officials lacked the background or inclination to understand the city's complex pension plan, considered one of the most generous in the country." The Times noted that, according to the report, the City Council, to placate "politically powerful" labor unions, increased pension benefits and planned to pay for them with future stock market earnings, not the city general fund. But the stock market declined, and the council compounded its mistake by refusing to increase general fund contributions to the system, allowing the deficit to grow.

As scathing as the report is, it was described as a "whitewash" by Diann Shipione, a pension trustee who has been sounding alarms about the pension mess for two years. "As damning as this report is, it's an expensive and successful whitewash," the whistleblower told the Union-Tribune. "It assumes that everybody getting in line for millions of dollars of unfunded benefits was just too stupid to notice that something might be wrong. That is a real stretch. There is a premise that people in city government did not know the consequences of their actions, which they clearly did."

The Wall Street Journal, in a September 16 column, cited untenable pension obligations as it compared San Diego to the beleaguered United Airlines and US Airways.

Pensions Blamed in Berkeley: The city is falling further into debt, reported the Berkeley Daily Planet (September 14), and Budget Director Tracy Vesely blamed higher pension and health care costs. She said higher-than-expected employer contribution rates, required by the California Public Employees' Retirement System, will cost the city an extra $1 million next year.

Contra Costa Pension Costs Soar: Costs of public employee pensions are expected to increase by $30 million next year in Contra Costa County. That, according to the Contra Costa Times (September 9), is 10 times what the county's administrator forecast last spring. The paper noted that the labor-dominated retirement board three years ago used unrealistic assumptions, which were changed last July.

County Treasurer Bill Pollacek, who also serves on the retirement board, said, "Today in Contra Costa the chickens have come home to roost. Now we all know how much the benefits really cost." Taxpayers must bail out the Contra Costa County Employees' Retirement Association, whose fund is $911 million out of balance through 2006, even though this has been a good year for investment returns. The annual financial report noted the county's pension deficit is $1.2 billion for the same period, a debt that includes pension bonds issued in 1994 and 2003 to refinance the county's share of the shortfall.

The actuary's presentation confirms the feared consequences of action by the county Board of Supervisors two years ago that increased pay and benefits, including boosting public safety pensions by as much as 50 percent, The Times reported.

Pension Concerns Raised on Orange County: Orange County Treasurer John M.W. Moorlach has expressed strong concern about a pension deal brewing in his county, warning county supervisors about a tentative three-year contract to allow 17,000 employees retire sooner with bigger pensions.

Mr. Moorlach was the loudest voice warning of the impending bankruptcy of the county in 1994, which occurred. He later became the treasurer of the county, and now, reported the *Los Angeles Times* and *Orange County Register*, he is again sounding an alarm.

The proposal, which supervisors are to vote upon on August 24 (note: the Item was approved), calls for employees to pay for the increased retirement pay – assuming the $5 billion pension fund's investments return 7.5 percent on average over the next 30 years. If not, the county's taxpayers have to make up the difference.

"Somebody is going to have to guarantee it, and it's going to be the taxpayers," Mr. Moorlach was quoted in *The Times* (August 16). "For a county that was so badly burned to get this close to that kind of fire again is a little unnerving to me."

He asked whether the county was being forced to be so generous, when it might be better to allow employees to start earning increased benefits now, rather than to grant them immediately to all current employees. At least 800 employees would retire right away, the paper said, citing one estimate.

The Register (August 15) noted that Mr. Moorlach has warned of what the newspaper has called the "pension tsunami" that is impacting local budgets around the state. Mr. Moorlach: "It's a political problem. We have electeds who seem to believe the line that it doesn't cost anything. But now we have cities up north that are sucking air. They've increased benefits so much, and now they can't afford to pay them. They are looking at layoffs, tax increases, and all the stuff we had to do after the bankruptcy."

Employees would forego pay raises for three years as part of the deal, but, said Mr. Moorlach, “It’s always an up escalator; there’s no down escalator. After three years, employees will come and complain that they haven’t had a raise for three years.”

Reed Royalty, president of the Orange County Taxpayers Association, said in a letter to supervisors: “Taxpayers in the private sector are deferring retirement – sometimes into their 70s – to support themselves and to pay the taxes that enable government employees to retire at age 50 or 55 with inflation-adjusted pensions that approach 100 percent of salary in the highest-paid year of service.”

LA Media Exposes Excessive Public Pensions: Two major newspapers covering the Los Angeles metropolitan area had major features 7 days exposing excessive public pension benefits. The *Los Angeles Daily News* reported on July 10 that 1,198 retired Los Angeles County government employees receive pensions of more than $100,000 a year, with the top ten ranging from $210,434 to $316,047.

According to the *Los Angeles Times* (July 12), the pension crisis was precipitated, beginning in 1999, when former governor Gray Davis signed a bevy of union-backed bills that allowed state and local governments to sweeten retirement packages. “Improvements varied at the state and local level, but increases of 33 percent to 50 percent have been common. In most cases, the increased benefits were made retroactive with employees paying little or none of the extra costs,” the paper said.

For the state, the pension cost increased from $611 million in 2001 to $2.5 billion this year, the paper said. And eight local governments so far have been granted a deferral of their contributions to the Public Employee Retirement System this year, but will have to pay back the deferred amount, beginning July 2007, plus 7.75 percent interest. The irresponsible eight: Santa Clara County, Long Beach, Lemon Grove, Paradise, Pacific Grove, Richmond, South Gate and the Sacramento Metropolitan Fire District.

Other government jurisdictions, including the state, are borrowing to pay for pension costs. According to the *San Diego Union-Tribune* (July 8), San Diego Mayor Dick Murphy is proposing to borrow $200 million to pay for pension benefits. The city’s fiscally-challenged pension fund has a $1.15 billion deficit and unfunded retiree health costs estimated to be between $600 million and $938 million.

Carl DeMaio, president of the Performance Institute in San Diego, said, “Submitting an IOU is not a payment. It is not actuarially sound. All you’re doing is pushing back a crisis for two or three years.”

The *Daily News* obtained the data on Los Angeles County retiree benefits through a Public Records Act request, but the county refused to provide the name or former position of the person getting $316,047. What was done to cause what the Daily News calls “sugar-coating” of the retirement benefits? The list is long and varied:

- First and foremost, basic retirements were increased to allow government employees to retire earlier at a larger percentage of their salary per year (times number of years worked). For some, this allows an employee to get 90 percent of salary at age 50.

- The definition of salary was broadened to include all kinds of things, including cash payments for unused sick leave and annual leave, overtime, etc.
- Bonuses were included in salary. In Los Angeles County, there are more than 110 bonuses that are included in pensions, according to the Daily News, including one for “vehicle allowance” to another, the “custodian floor waxing bonus.”
- Cost-of-living adjustments were improved.
- A state two-tiered pension system, enacted during the Wilson Administration to save costs, was repealed.
- More retirees were granted the more lucrative “public safety” pension benefits. Despite a major campaign by the Sacramento Bee, the Democrats in the Legislature refused to stop this law going into effect on July 1. An increased number of groups, such as billboard inspectors and driver’s license examiners, can now qualify for “public safety” benefits, which are 25 percent better than those of the rank and file.
- The retirement benefit is computed based on the highest 12 month salary period of the employee. This allows the practice of “pension spiking,” by allowing a padding of the final one-year number. Earlier, the benefit was based on the salary averaged over a number of years, the last three was fairly common.

What is missing from this list is the practice in a number of jurisdictions to provide even more retirement benefits outside of the formal retirement system. For example, some jurisdictions contract with a private group to provide supplementary retirement benefits. The Sacramento School System set up a more lucrative pension system outside of the regular system for a few top administrators. This is now under legal review. In the San Juan Unified School District, 50 top administrators were provided with an additional annuity paid from by the district at a cost of $700,000 a year as an “early” retirement incentive.

Expensive Firefighter Benefits in Los Angeles County Hinder Hiring More Firefighters: According to a July 4 report in the Los Angeles Daily News, benefits for L.A. County firefighters have been sweetened so much that it is now cheaper to pay massive amounts of overtime than to hire more firefighters. County costs for benefits and pensions, along with workers’ compensation and health insurance, amount to 58.6 percent of base salaries, compared to 42 percent in 1996, and 39 percent for county administrative employees, the paper reported. Fire Chief P. Michael Freeman: “As ridiculous as it sounds, it’s more cost-effective to bring in a firefighter from home and pay them time and a half because we don’t have to pay more benefits for them.” In 2003-04, more than 940 county firefighters used overtime to increase salaries by more than 50 percent, with 15 more than doubling their base pay. A captain took home $217,036, including $122,559 in overtime. The Daily News used the state Public Records Act to pry the figures out of county government.

Bay Area “Retirement costs take toll.” With that headline, the *Palo Alto Daily News* (June 13) reported on a survey of pension costs showing dramatic increases since 2000 when a richer formula for determining retirement income for public employees was adopted by most of the cities and special districts on the San Francisco Peninsula. In some cities, costs soared as much as 500 percent over the past five years, according to the report that honed in on the 3 percent at age 50 formula for police and firefighters, giving them 3 percent of highest pay for each year with retirement eligibility beginning at age 50. Thus veteran cops and firefighters can retire with 90 percent of their current salary for the rest of their lives.

In San Mateo, the city's pension payouts went up 500 percent from $850,000 in 1999-2000 to $5.5 million for 2004-05, based on a 3 percent at 50 deal negotiated in December 2002 that had been 2 percent at 50 in the past.

The dot-com bust and its impact on pension fund investments, along with the sagging economy, contributed to the problem, but CalPERS had advised its member agencies that they would be able to afford the better pensions without increasing employers' (taxpayers') pension contributions.

Statewide, four years after passage of SB 400 (Ortiz), which triggered the bonanzas, the *Daily News* reported that as of May some 249 agencies across the state adopted the formula, following the lead of the California Highway Patrol.

Disability Status Boosts Pensions for Top CHP Officers: In a September 10, 2004 article *The Sacramento Bee*, reported that the vast majority of retired high-ranking California Highway Patrol officers – including the commissioner – have pursued workers' compensation claims.

Fifty-five of the 65 high-ranking officers who have retired since 2000 have sought workers' comp settlements within two years of retiring, *The Bee* reported. These claims usually form the basis for disability retirement. When they gain disability retirement status, they also don't have to pay taxes on half their retirement pay, and pensions for many amount to at least 90 percent of salary. It was noted that rank-and-file patrol officers complain that actions by chiefs and captains set a bad example. They call it "chief's disease."

The Bee reported that the CHP has the highest rate of disability retirements in the state with nearly 70 percent of retirees getting special tax and medical benefits. These benefits cost taxpayers about $75 million in the 2002-03 fiscal year, the paper reported.

The Bee also reported that CHP officers, after retiring on disability, wind up in other jobs as a result of their law enforcement backgrounds. A CHP officer who retired with stress disability, for example, has been hired to head up security at a major airport, a job that many consider to be extremely stressful in the wake of 9/11, *The Bee* reported.

Runaway Pension Reported: The *Los Angeles Daily News* (April 3) reported thousand of retired public employees in the state are getting six-figure pensions and the number will be going up in coming years. The paper said its survey of pension data found 427 retirees in the State Teachers' Retirement System getting pensions in excess of $100,000 annually, including 67 who once worked for the Los Angeles Unified School District. The paper said 80 retirees of the Los Angeles City Employees' Retirement System, 84 former police and fire personnel in the city fire and police pension system and 816 in the California Public Employees' Retirement System were making at least $100,000 a year in retirement pay. It said Los Angeles County official refused to provide data. The highest pension is being collected by the widow of former Los Angeles County Sheriff (up to $270,000 a year), the paper reported. In an April 7 editorial, the *Daily News* called for a change. "No one denies that public employees should be paid fairly for their service, but the current pension system affords them benefits unheard of to most of the hard-working Californians who pay the bills. And the purpose of government shouldn't be to enrich a lucky few, but to benefit all."

Soaring Public Pay and Benefits Fuel Fiscal Crisis: Public payrolls have grown far more than inflation in the last five years, reported the *Los Angeles Daily News* (March 13). In fact, the newspaper's analysis found that costs of salaries and benefits for the financially troubled Los Angeles Unified School District grew three times the 17 percent rate of inflation.

Steven Frates, senior fellow at the Rose Institute of State and Local Government at Claremont McKenna College, told the *Daily News*: "At all levels of government, the rate of compensation has gone up much more rapidly than it has in the private sector and, most importantly, faster than the personal income of the people who pay for this." Personal income per capita in California increased 24 percent over the five years through 2002-03. "There has been a wealth transfer. It has gone from the citizens to the people in government."

The newspaper reported these statistics for the state, city of Los Angeles, Los Angeles County, and the LAUSD (stats are over the past five years through 2002-03):

State of California – Costs of salaries and benefits, including pensions, soared 41 percent, from $13.3 billion to $18.7 billion. The number of full-time employees increased 10.5 percent, to 212,563.

City of Los Angeles – Pay and benefits, including pensions, increased 26 percent, from $1.8 billion to $2.2 billion. The paper said average pay for police officers grew 28 percent, compared to 23 percent for civilian workers. Overtime costs increased by 61 percent, and workers' compensation costs were up 81 percent.

Los Angeles County – Salaries and benefits jumped 39 percent, from $5 billion to $6.9 billion, while average county employee's pay increased 31 percent, to $49,343.

LAUSD -- Salaries and benefits grew 51 percent, from $3.6 billion to $5.4 billion, as the average compensation package grew 27 percent, to $65,526. On March 10, the board approved $427 million in budget reductions and gave the superintendent until April 9 to find $61 million more to cut. The board eliminated 480 positions, mostly nurses, clerks and administrators.